

**REPORT OF  
FINANCIAL EXAMINATION**

**LACLEDE MUTUAL INSURANCE**

**AS OF  
DECEMBER 31, 2005**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

## TABLE OF CONTENTS

<b><u>Subject</u></b>	<b><u>Page</u></b>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	2
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
Assumed	7
Ceded	7
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENTS:	
Analysis of Assets	10
Liabilities, Surplus and Other Funds	11
Statement of Income	12
Capital and Surplus Account	12
NOTES TO THE FINANCIAL STATEMENTS	13
EXAMINATION CHANGES	13
GENERAL COMMENTS AND/OR RECOMMENDATIONS	13
SUBSEQUENT EVENTS	13
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	14

September 12, 2006  
Lebanon, Missouri

Honorable Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

### **LACLEDE MUTUAL INSURANCE**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 325 West Commercial, Lebanon, Missouri 65536, telephone number (417) 588-2219. This examination began on August 8, 2006, and was concluded on September 12, 2006, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date which are noted in this report.

## **Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

## **Comments-Previous Examination Report**

There were no comments, recommendations, and notes of the previous examination report dated December 31, 2001.

## **HISTORY**

### **General**

The Company was originally organized on January 2, 1912, as Mutual Insurance Association of Laclede County. On June 17, 1938, the Company reorganized and received its Certificate of Incorporation.

On April 15, 2002 the Company amended its Articles of Incorporation changed its name to Laclede Mutual Insurance. The Company also changed the annual meeting of the Company to the third Thursday in March of each year.

The Company has a Certificate of Authority dated January 1, 1985, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Thursday in March, at the home office of the Company, or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who is elected from the general membership. The Board of Directors consists of no more than 9 members and no less than 5 members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$100 per each attended meeting.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Freida J. Brackett 2330 South Jefferson Lebanon, Missouri	Real Estate Broker Insurance Agent	2003-2006
Janet T. Harris RR 6 Box 65560 Salem, MO 65560	Agent	2003-2006
Michael O. Light 16966 Highway B Lebanon, MO 65536	Farmer/Agent	2005-2008
Shannon Barclay 35695 Highway HH Lebanon, MO 65536	Farmer/Loan Officer	2003-2006
Howard M. McClure 14005 Violet Drive Lynchburg, MO	Retired Dairy Farmer Agent	2004-2007
Edward R. Smithey 1100 Wood St. Lebanon, MO 65536	Farmer	2004-2007
Keith Johnson 13200 Reynolds Drive Lebanon, MO 65536	Farmer/Trucker	2005-2008
Robert S. Stratton 18893 Highway HH Lebanon, MO 65536	Farmer	2004-2007

The Board of Directors elects for a term of one year a President, a Vice-President, a Treasurer, and a Secretary, who may also serve as Treasurer when so designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Michael O. Light	President
Howard McClure	Vice-President
Bernita Shamel	Secretary/Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended during the period under examination. Company changed its name to Laclede Mutual Insurance and changed the annual meeting to the third Thursday of March.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage meets the amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an aggregate limit of \$2,000,000 and a \$5,000 deductible for each claim.

The Company has errors and omissions coverage under which all of its employees and its directors who are agents are listed. The policy provides an aggregate limit of liability of \$500,000 with a \$1,000 deductible. All of the Company's agents are also responsible for obtaining their own errors and omissions insurance. The Company does not reimburse the agents for any cost related to obtaining the coverage.

The Company has a business owner's insurance policy for \$260,000 on its building and \$50,000 on personal property, with a \$250 deductible. The Company also has a business liability policy with a \$5,000 limit per person for medical expenses, \$50,000 limit any one occurrence for fire legal liability, and an aggregate limit of \$300,000 per occurrence. In addition, the Company carries worker's compensation insurance. The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has seven full-time employees. The Company provides health and life insurance to its employees. Employees receive five sick days per year and one to three weeks of vacation per year, depending on employment position and length of employment. In addition, the employees are given an annual allowance to invest in a retirement plan of their choice. It appears the Company has made adequate provisions in its financial statements for these benefit obligations.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

#### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverage.

The Company's policies are sold by 17 licensed agents, who receive a commission of 15% on all policies. The agent contracts contain provisions designating that the agent is responsible for obtaining errors and omissions insurance, the timely delivery of an application to the home office and that the application should be fully completed before it is delivered to the home office.

The Company is 100% owner of an insurance agency, Laclede County Insurance Agency, Inc. The agency markets coverages not offered by the Company, mainly automobile coverage, to the Company's policyholders.

#### **Policy Forms and Underwriting Practices**

The Company uses American Association of Insurance Services (AAIS) policy forms. The Company has hired a full time employee to perform property inspections and claims adjusting. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

#### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses Incurred</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$2,798,397	\$ 652,092	\$1819,298	\$732,578	\$105,790	(\$218,706)	(\$94,648)
2004	2,843,077	595,688	1,519,025	223,664	106,822	189,497	262,552
2003	2,550,569	565,018	1,277,859	558,171	107,791	(195,274)	(52,953)
2002	2,218,010	425,940	1,049,854	774,436	107,366	(320,633)	(179,953)
2001	2,424,566	454,505	1,003,025	619,151	118,457	(112,317)	38,730

At year-end 2005, there were 3,117 policies were in force.

## **REINSURANCE**

### **Assumed**

The Company is part of a reinsurance pool with MAMIC Mutual Insurance Company (MAMIC). The agreement pertains to errors and omissions policies and directors' and officers' liability policies written by MAMIC. The pool assumes a 95% quota share of the first \$1,000,000 each claim and in aggregate on all errors and omissions policies insured under the agreement and the first \$2,000,000 each claim and in aggregate on all directors' and officers' liability policies insured under the agreement. The Laclede Mutual Insurance is liable for a 3% share of the interest and liabilities of the pool and receives a commission of 35% of net written premium ceded under the contract.

### **Ceded**

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer). The Company has a combined per risk excess of loss and aggregate annual aggregate excess of loss reinsurance agreement which is for both fire and windstorm coverage. Under the per risk portion of the agreement, the Company retains \$50,000 per risk and the reinsurer's limits are \$250,000 per risk and \$700,000 per loss occurrence. Under the annual aggregate portion of the contract, the reinsurer is liable for 95% of the Company's aggregate net losses that exceed 75% of the Company's net written premium income. The reinsurer's liability shall not exceed \$2,000,000 during any one calendar year. The premium paid to the reinsurer is a percentage of the Company's net written premium income based on the Company's four-year loss ratio, with a rate of 18.94%.

The Company has a first per occurrence catastrophe contract for fire and wind risks. The Company retains \$350,000 for each and every loss occurrence. The first layer of liability of the reinsurer shall not exceed 95% for each loss occurrence up to \$1,000,000 with an annual limit not to exceed 95% of \$2,000,000. Annual premium paid to the reinsurer is based on insurance in force the previous year, with an annual premium of \$43,143.

The Company also has a second per occurrence catastrophe reinsurance contract for fire and wind risks. Under this agreement, the reinsurer is responsible for 100% of all losses that exceed the Company's retention and the reinsurer's limit under the first per occurrence catastrophe contract, with limits of \$1,350,000 per loss occurrence and \$7,000,000 per calendar year. Annual premium paid to the reinsurer is based on insurance in force the previous year, with an annual premium of \$92,389.

The Company also has a quota share agreement for farm liability and comprehensive personal liability coverage. The Company cedes 100% of the liability to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

#### **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Schott & Van de Ven performs an annual review of the Company's financial records and prepares the annual statement and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2005**

Bonds	\$1,475,398
Stocks	116,256
Real Estate	386,278
Cash on Deposit	569,321
Other Investments	33,230
Computer Equipment	4,355
Federal Income Tax Recoverable	76,840
Interest Due and Accrued	12,919
D&O / E&O Reserve Fund	86,525
Funds Held by Reinsurer	30,885
Due from Employee	6,390
	-----
Total Assets	\$2,798,397
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2005**

Losses Unpaid less Recoverable	\$ 10,871
Ceded Reinsurance Payable	64,555
Unearned Premium	566,664
Accts Payable	10,002
	-----
Total Liabilities	\$ 652,092
	-----
Guaranty Fund	\$ 361,700
Other Surplus	1,784,605
	-----
Total Surplus	\$ 2,146,305
	-----
Total Liabilities and Surplus	\$ 2,798,397
	=====

## STATEMENT OF INCOME

December 31, 2005

Net Assessments	\$ 946,378
Other Insurance Income	93,376
Net Losses Incurred	(626,135)
Other Underwriting Expenses	(632,325)
	-----
Net Underwriting Income (Loss)	\$ (218,706)
Investment Income	-----
Other Income	\$ 104,349
	19,709
	-----
Gross Income	\$ (94,648)
Federal Income Tax	(0)
	-----
Net Profit/Loss	\$ (94,648)
	=====

## CAPITAL AND SURPLUS ACCOUNT

December 31, 2005

Policyholders' Surplus, December 31, 2004	\$ 2,247,389
Net Income	(94,648)
Unrealized Gain on Marketable Securities	(2,240)
Non-admitted Assets	(4,196)
	-----
Policyholders' Surplus, December 31, 2005	\$ 2,146,305
	=====

### **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

### **EXAMINATION CHANGES**

There were no examination changes.

### **GENERAL COMMENTS AND RECOMMENDATIONS**

None.

### **SUBSEQUENT EVENTS**

None.


## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Laclede Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

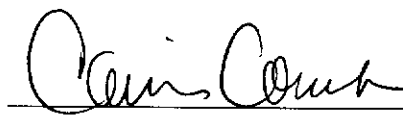
I, Larry J. Kleffner, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

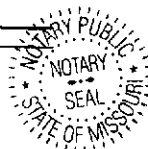
 CFE  
Larry J. Kleffner, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 2nd day of Oct, 2006.

My commission expires:

8/8/10

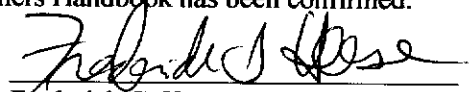
  
Notary Public



CARRIE L. COUCH  
My Commission Expires  
August 8, 2010  
Moniteau County  
Commission #06429682

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Frederick G. Heese, CPA, CFE  
Audit Manager  
Missouri Department of Insurance